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**Financial Reporting Technical
Committee**

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Berlin, 06 November 2024

Dear Mr Klinz,

**IASB Exposure Draft ED/2024/4 Translation to a Hyperinflationary Presentation
Currency – Proposed amendments to IAS 21**

On behalf of the Accounting Standards Committee of Germany, I am writing to contribute to EFRAG's Draft Comment Letter (herein referred to as 'DCL') on the IASB's ED/2024/4 *Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS 21*, issued by the IASB on 25 July 2024 (herein referred to as the "ED").

The proposed amendments to IAS 21 would require that when an entity's presentation currency is the currency of a hyperinflationary economy but the functional currency is the currency of a non-hyperinflationary economy, the entity translates its financial statements (or the results and financial position of a foreign operation), including comparatives, at the closing rate at the date of the most recent statement of financial position. We support the proposal, although we believe that the proposed translation method in paragraph 41A of IAS 21 is unlikely to affect entities in Germany, except in rare circumstances.

In response to EFRAG's questions to constituents, we agree with EFRAG's recommendation to the IASB that a reference to a 'foreign operation' in addition to an 'entity' in the proposed paragraph 41A (and 42) would provide further clarity on the IASB proposals.

However, we do not agree with EFRAG's proposal to include an additional explicit disclosure requirement that an entity's presentation currency has become the currency of a hyperinflationary economy, in the initial year of applying paragraph 41A of IAS 21 (see paragraphs 18, 27, and 37 of the DCL). This is consistent with our position on the additional disclosure requirements proposed in paragraphs 53A(a) and 54A of IAS 21, as well as in paragraphs 219A(a) and 220A of IFRS 19 of the ED. We believe that the proposed disclosure requirements are redundant, and we therefore do not support them.

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Following a discussion by the Financial Reporting Technical Committee (FR TC), we are unsure how EFRAG's proposal in paragraph 9 of the DCL (references to the 'functional currency' apply to the functional currency of the parent in the case of a group) helps to clarify the 'Translation to the presentation currency' section. One objective of the proposed translation method in paragraph 41A of IAS 21 is to align how an entity, whose presentation currency is from a hyperinflationary economy, translates the results and financial position of a foreign operation, whose functional currency is from a non-hyperinflationary economy. In this case, the functional currency is that of the foreign operation, rather than that of the parent company. We are unsure as to whether the EFRAG proposal provides greater clarity or confusion in this situation.

We provide our detailed responses to EFRAG's questions to constituents in the appendix to this letter and attach our comment letter to the IASB, containing our detailed comments on the questions raised in the ED.

If you would like to discuss our view further, please do not hesitate to contact Jan-Robert Kirchner (kirchner@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the DCL

Question 2 – Proposed disclosure requirements

Do you propose any additional or different disclosure requirements for entities applying the proposed amendments? Why or why not?

As noted in our comment letter to the IASB, we do not agree with the additional disclosure requirements in paragraphs 53A(a) and 54A of IAS 21, as set out in the ‘Proposed disclosure requirements’ (parts (a) and (c) of Question 2). We believe these requirements are redundant and therefore do not support them. Consequently, we also do not support EFRAG’s proposal to include an explicit disclosure requirement that an entity’s presentation currency has become the currency of a hyperinflationary economy in the first year of applying paragraph 41A. However, we generally support the proposal to provide summarised financial information about a foreign operation as set out in paragraph 53A(b) of IAS 21 (part (b) of Question 2). Nevertheless, we believe further clarification is needed, particularly regarding the type of summarised information to be provided and the currency in which it should be presented. For further explanation, please refer to our response to Question 2 in the attached comment letter to the IASB.

Question 3 – Proposed disclosure requirements for subsidiaries without public accountability

If you suggest additional or different disclosure requirements for entities applying the proposed amendments (as addressed in Question 2), which of those would you consider relevant for subsidiaries without public accountability? Why or why not?

As noted in our comment letter to the IASB and in line with our position on Question 2, our discussions revealed no support for the ‘Proposed Disclosure Requirements for Non-Publicly Accountable Subsidiaries’ (Question 3). Therefore, we do not agree with EFRAG’s line of argument in paragraph 26 of the DCL and do not support the additional disclosure requirement proposed in paragraph 27 of the DCL. We are concerned that the introduction of these additional disclosure requirements could result in financial statements being burdened with excessive detail. Furthermore, there is potential to reduce the disclosure burden for non-publicly accountable subsidiaries by not incorporating the proposed disclosure requirements in IFRS 19. For further explanation, please refer to our response to Question 3 in the attached comment letter to the IASB.

Do you agree with EFRAG’s positions on the proposed amendments to IAS 21 as expressed in this draft comment letter?

Regarding the proposed translation method in paragraph 41A of IAS 21, we agree with EFRAG’s suggestion in paragraph 8 of the DCL that the IASB should consider adding a reference to a ‘foreign operation’ alongside ‘entity’ in the proposed paragraph 41A to clarify the proposals further.



With regard to EFRAG's suggestion in paragraph 9 of the DCL, we believe that further clarification is needed. "EFRAG ... suggests, to further clarify the notion of a 'functional currency', the IASB may consider introducing, as part of the proposed amendments, wording as in paragraph 51 of IAS 21 (In paragraphs 53 and 55-57 references to 'functional currency' apply, in the case of a group, to the functional currency of the parent), in the 'Translation to the presentation currency' section, in addition to the 'Disclosures' section." One objective of the proposed translation method in paragraph 41A of IAS 21 is to align how an entity, whose presentation currency is from a hyperinflationary economy, translates the results and financial position of a foreign operation, whose functional currency is from a non-hyperinflationary economy. In this case, the functional currency is that of the foreign operation, rather than that of the parent company. We are unsure as to whether the above EFRAG proposal provides greater clarity or eventually confusion in this situation.

As noted in our comment letter to the IASB, we agree with the proposed transitional requirements and requirements when the economy ceases to be hyperinflationary (Question 4). However, as previously indicated, we do not support EFRAG's proposal to add an additional explicit disclosure requirement in IAS 21 for an entity to disclose that its presentation currency has become the currency of a hyperinflationary economy in the first year of applying paragraph 41A. Consequently, we do not support EFRAG's proposal to add this disclosure requirement to the transition requirements of the proposed amendments.



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Berlin, 06 November 2024

Dear Andreas,

IASB Exposure Draft ED/2024/4 *Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS 21*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2024/4 *Translation to a Hyperinflationary Presentation Currency – Proposed amendments to IAS 21* issued by the IASB on 25 July 2024 (herein referred to as the “ED”). We appreciate the opportunity to comment on the ED.

The proposed amendments to IAS 21 would require that when an entity’s presentation currency is the currency of a hyperinflationary economy but the functional currency is the currency of a non-hyperinflationary economy, the entity translates its financial statements (or the results and financial position of a foreign operation), including comparatives, at the closing rate at the date of the most recent statement of financial position. We support the proposal, although we believe that the proposed translation method in paragraph 41A of IAS 21 is unlikely to affect entities in Germany, except in rare circumstances.

We agree with the ‘Proposed translation method’ (Question 1) and believe that it will enhance the usefulness of the resulting information in a straightforward and cost-effective manner, while eliminating the existing diversity in accounting treatment.

We also agree with the proposals set out in ‘Other aspects: Transitional requirements and requirements when the economy ceases to be hyperinflationary’ (Question 4).

After deliberating the proposals, we do not agree with the additional disclosure requirements in paragraphs 53A(a) and 54A of IAS 21 as set out in ‘Proposed disclosure requirements’ (Question 2). We believe that the proposed disclosure requirements in paragraphs 53A(a) and 54A of IAS 21 are redundant and we therefore do not support them. However, we support the

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proposal to provide summarised financial information about a foreign operation set out in paragraph 53A(b) of IAS 21 but believe that further clarification of this disclosure requirement is needed.

In line with our position on proposed paragraphs 53A(a) and 54A of IAS 21, we also do not agree with the inclusion of these disclosure requirements in IFRS 19, as proposed in 'Proposed disclosure requirements for non-publicly accountable subsidiaries' (Question 3). Furthermore, we also do not support proposed paragraph 219A(b) of IFRS 19, which would require a subsidiary without public accountability that translates the results and financial position of a foreign operation in accordance with paragraph 41A of IAS 21 to disclose summarised financial information about that foreign operation. We are concerned that the introduction of these additional disclosure requirements could result in financial statements being overburdened with excessive detail.

Our responses to the complete set of questions raised in the invitation to comment are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Jan-Robert Kirchner (kirchner@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the ED

Question 1 – Proposed translation method

The proposed amendments to IAS 21 would require that when an entity's presentation currency is the currency of a hyperinflationary economy but the functional currency is the currency of a non-hyperinflationary economy, the entity translates its financial statements (or the results and financial position of a foreign operation), including comparatives, at the closing rate at the date of the most recent statement of financial position.

Paragraphs BC1–BC14 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for proposing this translation method.

Do you agree with the proposed translation method? Why or why not?

If you disagree, please explain what aspect of the proposed translation method you disagree with. What changes to the proposed translation method would you suggest instead and why?

We **agree** with the translation method proposed by the IASB for entities whose presentation currency is the currency of a hyperinflationary economy but whose functional currency (or that of a foreign operation) is the currency of a non-hyperinflationary economy.

We believe that using the closing rate at the date of the most recent statement of financial position to translate all amounts subject to translation, including comparative amounts, from a non-hyperinflationary functional currency into a hyperinflationary presentation currency is an appropriate method for expressing these amounts in terms of a current measuring unit. We support the proposal, although we believe that the proposed translation method in paragraph 41A of IAS 21 is unlikely to affect entities in Germany, except in rare circumstances.

Consequently, we concur with the IASB's conclusion as set out in paragraphs BC9-BC14. The proposed translation method for the submitted fact pattern and related matter will enhance the usefulness of the resulting information in a straightforward and cost-effective manner, while eliminating the existing diversity in practice.

**Question 2 – Proposed disclosure requirements**

The proposed amendments to IAS 21 would require an entity using the proposed translation method to disclose:

- (a) the fact that it applies the translation method in proposed paragraph 41A (proposed paragraph 53A(a));
- (b) summarised financial information about its foreign operations translated applying proposed paragraph 41A (proposed paragraph 53A(b)); and
- (c) if the economy referred to in proposed paragraph 41A ceased to be hyperinflationary, that fact (proposed paragraph 54A).

Paragraphs BC20–BC27 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What disclosure requirements would you suggest instead and why?

We **understand** the IASB's rationale that information about the application of the proposed translation method and the end of that application is useful for users of financial statements. However, we are **not convinced** by the majority of the proposed disclosure requirements.

Disclosure of the fact that an entity is applying the proposed amendment (proposed new paragraphs 53A(a) and 54A of IAS 21)

We **do not agree** with the proposed disclosure requirements set out in paragraphs 53A(a) and 54A of IAS 21. We believe that the additional disclosure requirements proposed in paragraphs 53A(a) and 54A of IAS 21 are not necessary to provide users of financial statements with sufficient information about the application of the proposed translation method under paragraph 41A of IAS 21 or about the end of the hyperinflationary status of an economy to which the application of paragraph 41A relates. In accordance with paragraphs 112 and 117 of IAS 1, an entity is already required to disclose material information regarding its accounting policies. We believe this would necessitate the disclosure of the application of the proposed translation method under paragraph 41A of IAS 21, as well as instances when the proposed translation method is no longer applied according to paragraph 41B of IAS 21. Should the proposed translation method no longer be applied, this would also mean that the presentation currency of an entity would no longer be that of a hyperinflationary economy. This makes the proposed paragraph 54A of IAS 21 somewhat redundant. Furthermore, paragraph 28 of IAS 8 requires entities to disclose information about the initial application of an IFRS that has an effect on the current period, any prior period or might have an effect on future periods. In light of the above, we believe that the proposed disclosure requirements in paragraphs 53A(a) and 54A of IAS 21 are redundant and we therefore do not support them.



Disclosure of summarised financial information about the foreign operations translated by applying proposed paragraph 41A (proposed new paragraph 53A(b) of IAS 21)

We **support** the disclosure requirement set forth in proposed paragraph 53A(b) of IAS 21, which requires a reporting entity that translates the results and financial position of a foreign operation according to paragraph 41A to disclose summarised financial information about that foreign operation. However, we believe that **further clarification** of this disclosure requirement is **needed**, as we are unsure what type of summarised financial information the paragraph refers to. We would appreciate further application guidance from the IASB, for example in the form of illustrative examples of the summarised financial information. Furthermore, it is not clear whether the summarised financial information in the proposed paragraph 53A(b) of IAS 21 should be stated in the presentation currency of the reporting entity or in the functional currency of the foreign operation.

Question 3 – Proposed disclosure requirements for subsidiaries without public accountability

The IASB proposes to require an eligible subsidiary (subsidiaries that are permitted and elect to apply IFRS 19 *Subsidiaries without Public Accountability: Disclosures*) to disclose the same information as that which would be required of other entities applying IFRS Accounting Standards (that is, the IASB proposes not to reduce the disclosure requirements for an eligible subsidiary).

Paragraph BC28 of the Basis for Conclusions on this exposure draft explains the IASB's rationale for these proposals.

Do you agree with the proposed disclosure requirements for eligible subsidiaries? Why or why not?

If you disagree, please explain what aspect of the proposed disclosure requirements you disagree with. What reduced disclosure requirements would you suggest instead and why?

We do **not support** the IASB's proposed disclosure requirements for subsidiaries without public accountability.

Disclosure of the fact that an entity is applying the proposed amendment (proposed new paragraphs 219A(a) and 220A of IFRS 19)

Consistent with our reasoning for the disclosure requirements outlined in paragraphs 53A(a) and 54A of IAS 21, we also oppose the equivalent disclosure requirements proposed in paragraphs 219A(a) and 220A of IFRS 19 for the same reasons. We believe that the additional disclosure requirements proposed in paragraphs 219A(a) and 220A of IFRS 19 are not necessary to provide users of financial statements with sufficient information about the application of the proposed translation method under paragraph 41A of IAS 21 or about the end of the hyperinflationary status of an economy to which the application of paragraph 41A relates. In accordance with paragraph 176 of IFRS 19, an eligible subsidiary is required to disclose



material information regarding its accounting policies. We believe this would necessitate the disclosure of the application of the proposed translation method under paragraph 41A of IAS 21, as well as instances when the proposed translation method is no longer applied according to paragraph 41B of IAS 21. Should the proposed translation method no longer be applied, this would also mean that the presentation currency of an eligible subsidiary no longer be that of a hyperinflationary economy. This makes the proposed paragraph 220A of IFRS 19 somewhat redundant. Furthermore, paragraph 178 of IFRS 19 also requires eligible subsidiaries to disclose information about the initial application of an IFRS that has an effect on the current period, any prior period or might have an effect on future periods.

Additionally, paragraph BC7(b) of IFRS 19 states that reduced disclosure requirements for subsidiaries without public accountability would “*maintain the usefulness of the financial statements for users of these subsidiaries’ financial statements by requiring only disclosures designed to meet users’ information needs while eliminating disclosures that go beyond their needs.*” We question the necessity of the additional disclosure requirements in paragraphs 219A(a) and 220A of IFRS 19 for a subsidiary without public accountability, whose presentation currency is that of a hyperinflationary economy and which has another subsidiary with the currency of a non-hyperinflationary economy. Moreover, these disclosure requirements place an additional burden on preparers who initially requested the IASB to allow for reduced disclosure requirements for their subsidiaries (paragraph BC2 of IFRS 19).

In light of the aforementioned considerations, we believe that the proposed disclosure requirements set out in paragraphs 219A(a) and 220A of IFRS 19 are unnecessary and therefore **do not support** them.

Disclosure of summarised financial information about the foreign operations translated by applying proposed paragraph 41A (proposed new paragraph 219A(b) of IFRS 19)

Furthermore, we **do not support** the proposed disclosure requirement set out in paragraph 219A(b) of IFRS 19, which is equivalent to the disclosure requirement set out in paragraph 53A(b) of IAS 21. Paragraph 219A(b) of IFRS 19 requires a subsidiary without public accountability that translates the results and financial position of a foreign operation in accordance with paragraph 41A of IAS 21 to disclose summarised financial information about that foreign operation. One of the reasons given in paragraph BC25 of the ED is that paragraphs B10 and B12 of IFRS 12 *Disclosure of Interests in Other Entities* also require the disclosure of summarised financial information for subsidiaries with material non-controlling interests and for material joint ventures and associates. However, these requirements from IFRS 12 were not incorporated into the disclosure requirements of IFRS 19. It is our concern that the introduction of additional disclosure requirements, as proposed in paragraph 219A(b) of IFRS 19, could result in financial statements being overburdened with excessive detail. Moreover, it can be argued that the relevant financial information will still be available in the separate or individual financial statement of the subsidiary in question, or, if available, in the consolidated financial statement



(of a subgroup) that is prepared by the aforementioned subsidiary. Therefore, in this particular case, we propose that the IASB exempt subsidiaries without public accountability from the obligation to disclose summarised financial information about these foreign operations.

However, should the IASB decide that this disclosure requirement cannot be exempted, we recommend that subsidiaries without public accountability should at least be permitted to provide summarised financial information at a higher level of aggregation than that set out in the proposed paragraph 53A(b) of IAS 21.

In view of the current wording of the disclosure requirement in paragraph 219A(b) of IFRS 19, we would like to refer to our comments on the equivalent paragraph 53A(b) of IAS 21. **Further clarification is required** regarding the type of summarised financial information to which the paragraph refers. Additionally, it is unclear whether the summarised financial information in the proposed paragraph 219A(b) of IFRS 19 should be presented in the reporting entity's presentation currency or in the functional currency of the foreign operation.

From a broader perspective, it appears that the IASB has set very broad criteria in paragraph BC33 of IFRS 19 in order to derive the disclosure requirements for subsidiaries without public accountability. This has the consequence that, in our opinion, only limited exemption is granted to subsidiaries without public accountability, which is contrary to the actual purpose of IFRS 19.

Question 4 – Other aspects: Transition requirements and requirements when the economy ceases to be hyperinflationary

The IASB proposes:

- (a) to require an entity to apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (b) not to require an entity to disclose the information that would otherwise be required by paragraph 28(f) of IAS 8 or by paragraph 178(f) of IFRS 19; and
- (c) to permit an entity to apply the amendments earlier than the effective date.

Paragraphs BC33–BC36 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

If the economy referred to in proposed paragraph 41A ceases to be hyperinflationary, the proposed amendments to IAS 21 would require the entity to apply paragraph 39 of IAS 21 prospectively to amounts arising after the end of its previous reporting period—that is an entity would not restate amounts arising before the end of its previous reporting period.

Paragraphs BC16–BC19 of the Basis for Conclusions on this exposure draft explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not?

If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?



We **agree** with the proposed transitional requirements and the requirements when the economy ceases to be hyperinflationary.

In line with our support for the transitional requirements, we also support the exemption from disclosure requirements set out in paragraph 28(f) of IAS 8 and paragraph 178(f) of IFRS 19. In general, we believe that the added value of paragraph 28(f) of IAS 8 (and paragraph 178(f) of IFRS 19) is limited, given that it has been excluded from application on numerous occasions in the past. Therefore, we suggest the IASB consider whether this requirement can be completely removed from IAS 8.